DIRECT TESTIMONY
OF
SAMUEL L. DOZIER
ON BEHALF OF
SOUTH CAROLINA PIPELINE CORP.
DOCKET NO. 2004-6-G

Q. PLEASE STATE YOUR NAME AND POSITION.

A. I am Sam Dozier, Vice President, Customer Service and Market Development for South Carolina Pipeline Corporation ("SCPC").

Q. PLEASE DESCRIBE YOUR EDUCATION, BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a native of Marion County, South Carolina and graduated from Clemson University with a degree in Mechanical Engineering. I have a Master of Business Administration degree from the University of South Carolina. I have served in a number of positions at SCANA, including SCPC's Vice President for Customer Service and Market Development since 1996.

Q. WHAT ARE YOUR DUTIES WITH SCPC?

A. As Vice President, Customer Service and Market Development for South Carolina Pipeline Corporation, my responsibilities include the day to day management of SCPC's relationships with its customers and the marketing of new capacity on SCPC's system.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to provide the Commission an overview of SCPC's customers, rates, and contracts, and to review the growth of demand on our system. Much of this is information of a general nature concerning the history, operations and commercial structure of SCPC and provides important background for understanding how SCPC operates and is regulated by the Commission. I will also discuss the Industrial Sales Program-Rider or ISP-R and ask for Commission authorization to continue that program.

Q. COULD YOU PLEASE DESCRIBE FOR THE COMMISSION THE CUSTOMERS THAT SCPC SERVES?

A. SCPC serves two distinct classes of customers:

Sale for Resale Customers are investor owned or governmentally owned gas distribution systems. They resell gas to residential, commercial and industrial customers in their service areas. SCE&G's local gas distribution system is the largest member of this group of customers. In addition, we serve 11 publicly owned sale for resale customers, including the York, Chester and Lancaster Natural Gas Authorities (which together comprise the Patriots Energy Group joint municipal gas agency); the Clinton-

Newberry-Natural Gas Authority, the City of Orangeburg Department of Public Works, and other smaller systems around our service territory.

Industrial Customers --In addition to our sale for resale customers, we serve approximately 108 direct industrial customers. These are industrial gas users that are connected directly to SCPC's facilities. Examples of major direct industrial customers of SCPC are Voridian (Carolina Eastman) in Calhoun County; several textile plants operated by Milliken & Company in the Upstate; Stone Container in Florence; Nucor in Berkeley County and Darlington County; BP-Amoco in Charleston; the Bridgestone Firestone plant in Aiken; and the Michelin Plants in Lexington.

Also included in this industrial service category is the service SCPC provides to one of the fastest growing sources of demand for natural gas nationally--gas fired electric generation. SCPC serves Progress Energy's gas fired generation stations at Robinson Plant in Hartsville; Columbia Energy's cogeneration facilities in Calhoun County; Duke Power's generation at Buzzards' Roost in Greenwood County; SCE&G's gas fired generation at Plant Urquhart; and the South Carolina Public Service Authority's (Santee Cooper's) gas fired generation at Conway.

Q. ON WHAT TERMS DOES SCPC PROVIDE SERVICE TO ITS SALE FOR RESALE CUSTOMERS?

A. Historically, SCPC has served sale for resale customers under long-term contracts that specify the daily quantities of gas that SCPC has committed to deliver on a firm basis to meet the customer's peak winter demand. Customers pay a fixed monthly demand charge for each dekatherm ("dt") of this contract demand that they ask SCPC to stand ready to serve.

Under these firm contracts, SCPC provides both the delivery of the gas and the gas commodity itself as a single bundled service. To meet its merchant obligation under these contracts, SCPC purchases gas supplies, and related upstream transportation and storage services in interstate markets. SCPC then uses these assets (and its own system) to deliver gas supplies to its customers each month. Under the standard sale for resale contracts, customers pay for the gas they consume each month based on the price SCPC has paid for that gas and the transportation and storage charges related to that gas.

SCPC also provides these customers with interruptible service, which they use principally to provide interruptible service to industrial customers located on their systems. However, as a general matter, SCPC's service to its sale for resale customers is characterized by firm service obligations for

which customers pay a fixed monthly demand charge that reflects the cost of that service. In his pre-filed testimony, Mr. Conard, who is SCPC's Assistant Controller, provides a more detailed explanation of how these contracts work and how SCPC computes and accounts for the charges under them.

Q. COULD SCPC SUPPORT ITS SYSTEM WITH THE MARGIN REVENUE IT EARNS FROM SERVING SALES FOR RESALE?

A. No. The revenues that SCPC receives from its firm sales at present rates could not support the financial integrity of the system. As our quarterly filings indicate, our return on equity from the sale for resale customer class standing alone was negative in 2003. Only when earnings from other sources are included does SCPC earn even a small return.

Q. WHAT ADDITIONAL SOURCES OF MARGIN REVENUE DOES SCPC HAVE?

A. SCPC's principal source of margin revenue (apart from the sale for resale market) is its sales to interruptible industrial customers. While SCPC provides a relatively small amount of firm service to direct industrial customers, the vast amount of its service to industrial customers is interruptible service, and most of this service is under a pricing program called the Interruptible Sales Program –Rider or ISP-R.

Q. WHAT TRENDS HAVE YOU SEEN IN SCPC'S INDUSTRIAL MARGIN REVENUES IN RECENT YEARS?

A. Industrial margins vary from year to year. However, as a general trend, SCPC's industrial margins have eroded in recent years. This is principally due to the competitive nature of industrial fuels markets and relatively high price of natural gas in relation to alternative fuels in those markets.

Q. PLEASE DESCRIBE WHY SCPC'S INDUSTRIAL MARKETS ARE COMPETITIVE?

A. Unlike residential and commercial customers, the majority of SCPC's industrial customers have installed alternative fuel capabilities. This means that they can choose to burn a fuel other than natural gas –such as propane, No. 2 Fuel Oil, No. 6 Fuel Oil, or woodchips --whenever it is in their best interest to do so. In addition, interruptible transportation service is available to industrial customers on SCPC. This service allows customers or their marketers to buy their own gas and transport it to South Carolina on an interruptible basis. As a result, in making industrial gas sales SCPC must compete with the price a marketer would charge to deliver gas to an industrial customer using interruptible transportation. This later form of competition is called "gas on gas" competition.

Q. PLEASE EXPLAIN WHY INDUSTRIAL CUSTOMERS HAVE INSTALLED ALTERNATIVE FUEL CAPABILITIES AT THEIR PLANTS?

A. Alternative fuel capability gives industrial customers an economic advantage because it allows them to switch between gas and their alternative fuels whenever the "as-fired" price of gas is higher than the "as-fired" cost of the alternative fuel. Industrial customers on SCPC can and do switch to their alternative fuel whenever the as-fired price of gas rises above the corresponding price of the alternative fuel. This means that SCPC must compete on a month-to-month basis with alternative fuels if it is to make competitive industrial sales and earn some margins to support its system. As the Commission has found in past orders, SCPC's interruptible industrial service is fundamentally a competitive service in a competitive industrial fuels market. Unlike other utility services, industrial service is not fundamentally a monopoly service.

There is, in addition, another reason that industrial customers have installed alternative fuel capabilities. Alternative fuel capability allows industrial customers to avoid committing to pay the full cost of dedicated pipeline capacity to serve their needs. Firm service requires dedicated capacity not only on our system but all the way back to the gas producing

regions. By installing alternative fuel capabilities, industrial customers can avoid having to pay for this firm service commitment. In effect, they agree to use pipeline capacity only when it is not needed to serve firm customers.

Q. WITH WHAT FUELS IS NATURAL GAS COMPETITIVE IN TODAY'S MARKETS?

A. The alternative fuels against which SCPC can effectively compete in today's markets are propane and No. 2 Fuel Oil. There was a time when natural gas was priced cheaply enough to compete against coal, but that market was lost in the early 1980s when the Federal government deregulated the wellhead price of natural gas. There have been times in recent years when prices allowed natural gas to compete against No. 6 (High Sulfur) Fuel Oil, but that is not the case today. In today's markets propane and No. 2 Fuel Oil are the principal fuels against which natural gas competes month to month for interruptible industrial service.

Q. HOW HAS THE COMMISSION RECOGNIZED THE COMPETITIVE NATURE OF THESE INDUSTRIAL SALES IN PAST PROCEEDINGS?

A. In Order 10,391, dated May 22, 1957, the Commission recognized the competitive nature of industrial gas markets and specifically authorized the pipeline "to contract with industrial customers buying directly from the

Pipeline, on terms and conditions mutually satisfactory to the respective parties." The Commission confirmed this ratemaking approach in orders issued in 1978, 1982, 1989 and 1990.[1] In 1982, the Commission imposed maximum mark-ups, or caps, on the margins SCPC could negotiate with its industrial customers.[2]

Q. HAS THE COMMISSION HAD THE OPPORTUNITY TO REVIEW THIS RATEMAKING APPROACH IN RECENT YEARS?

A. Yes. In Docket No. 90-204-G, the Commission conducted a thorough and detailed review of SCPC's industrial margins and ratemaking. The record in that case involved many days of hearings and much expert testimony. The resulting order, Order 90-729, was quite lengthy and detailed. In it the Commission found:

1. That SCPC's industrial markets are in fact competitive (page 28-31);
2. That negotiated rates have worked well for SCPC and its customers in responding to volatile markets for industrial fuels (page 31);
3. SCPC's system and finances have been built around negotiated rates (page 31);

[1] Order No. 78-179, dated March 30, 1978; Order No. 82-898, dated December 20, 1982; Order No. 89-710; Order No. 90-729, dated August 8, 1990.

4. That negotiated rates have supported industrial development and industrial competitiveness in South Carolina (page 32-33); and

5. SCPC has managed its industrial sales programs to generate significant benefits for its sale for resale customers (page 32).

Q. DID THE COURTS REVIEW THAT ORDER?

A. Yes. The South Carolina Supreme Court upheld Order 90-729 in the case of Nucor v. South Carolina Public Service Commission, 312 S.C. 79, 85, 439 S.E.2d 270, 273 (S.C. 1994). The Court specifically found that a rate making approach based on negotiated margins subject to maximum mark-ups was consistent with the law in South Carolina.

Q. PLEASE DESCRIBE THE INDUSTRIAL SALES PROGRAM RIDER OR ISP-R PROGRAM YOU MENTIONED EARLIER.

A. The ISP-R program is the principal mechanism that SCPC uses today to retain competitive industrial loads. It was initially authorized in Order 83-222 and has been reviewed by the Commission Staff and reaffirmed in practically every annual PGA proceeding in the intervening 21 years. (See, for example, Order 2002-555A, at p. 3; Order 2001- 496 at p. 3; Order 2000-0434 at 3-4; Order 1999-712 at 4-5; Order 98-298 at p. 3-4; Order 97-477 at p. 9.) The program has been regularly reviewed by this Commission, and consistently upheld as beneficial for the system and all its customers.

[2] Order No. 82-898, dated December 20, 1982.

The ISP-R allows SCPC to quote competitive gas prices to its customers on a month-to-month basis to allow SCPC to compete with alternative fuels. Under the ISP-R program, SCPC is allowed to allocate specific gas supply purchases to these sales to meet competitive prices.

Q. HOW DOES THE ISP-R PROGRAM WORK?

A. Industrial pricing contracts contain a Base Rate pricing term under which a customer can be charged the weighted average cost of gas to SCPC for that month plus the negotiated margin for that customer. However, most industrial contracts also contain competitive pricing terms based on the ISP-R program. Under those competitive pricing terms, when Base Rate prices are non-competitive, SCPC may quote to the customer a price based on the as-fired price of the customer's alternative fuel. To participate in the program, the customer certifies the alternative fuel that it has available and the as-fired cost of that fuel month-to-month. SCPC has the option to meet the alternative fuel price if it can find gas supplies that allow it to do so.

Under the ISP-R program, the Commission has allowed SCPC to do two things to make it possible to quote competitive prices. First, under the ISP-R program, the Commission has allowed SCPC to assign specific gas supply purchases to ISP-R sales. These purchases may be at prices that are lower than the average cost of gas coming into the SCPC system but in all

cases must reflect the highest cost supplies in SCPC's portfolio that allow the competitive sale to be made after contractual margins are added. In addition, if further price reductions are needed to support the sale, SCPC may reduce its contractual margins.

Q. WHAT ARE THE BENEFITS OF THE ISP-R PROGRAM?

A. As the Commission has found in practically every PGA order since 1983, the ISP-R program benefits SCPC's system and its firm customers by making it possible for SCPC to compete effectively in industrial fuel markets. See for example, Order 98-298 at 4; Order 99-712 at 4-5; Order 2000-0434 at 3-4; Order 2001-496 at 3; Order 2002-555A at 3. In addition, as the Commission has found on numerous occasions:

> *The ISP-R promotes the efficient use of SCPC's facilities, helps to recover a portion of SCPC's fixed costs through industrial sales, allows SCPC to exert purchasing power in interruptible gas markets so that natural gas is obtained at better terms and prices, and provides additional flexibility and reliability to SCPC's system.*

Order 2002-555A at 3. See also Order 2001-496 at 3; Order 98-298 at 4; Order 99-712 at 4-5; and Order 2000-0434 at 3-4.

In sum, the benefits from the ISP-R program include

a. Maintaining service to industrial customers that would otherwise be lost to the system;

b. Generating substantial margin revenue needed to support the financial integrity of the system;

c. Creating additional purchasing power and operating flexibility by allowing SCPC to purchase larger volumes of gas supply each month; and

d. Maintaining a substantial pool of gas purchased for interruptible customers that can be used to serve firm customers in times of tight supply.

This last point bears elaboration. Through the ISP-R program, SCPC is able to purchase substantial quantities of gas at the beginning of the month for use by interruptible customers. If weather patterns change and capacity becomes tight, SCPC's priority-of-service curtailment plan allows SCPC to curtail its interruptible customers and make this gas available for immediate use by the firm customers. Since gas prices tend to spike dramatically when unanticipated cold weather arrives, the gas purchased at the beginning of the month is often substantially lower in price than gas purchased on the spot market when the system is under stress. The result is that the ISP-R program allows firm customers to benefit from this lower cost gas in precisely those conditions when gas markets are most volatile.

Q. WHAT ARE YOU REQUESTING OF THE COMMISSION IN THIS PROCEEDING?

A. In my opinion, the ISP-R continues to provide substantial benefits to all our customers and to the system in general. For the reasons stated above, I respectfully request the Commission to continue the ISP-R program.

Q. IN PAST CASES, YOU HAVE UPDATED THE COMMISSION ON THE COMPANY'S EXPERIMENTAL RESALE FIRM TRANSPORATION CONTRACTS. WHAT IS THE STATUS OF THOSE CONTRACTS AT THIS TIME?

A. As the Commission is aware, in late 2002 and in early 2003, SCPC began providing service under experimental Resale Firm Transportation contracts with two customers, the Department of Public Works of the City of Orangeburg and the Patriot's Energy Group. These two contracts have been separately approved by the Commission in Docket No. 2002-247-G (Orangeburg) and in Docket No. 2003-403-G (Patriots Energy Group).

Q. PLEASE DISCUSS THE ORANGEBURG RFT CONTRACT.

A. SCPC filed an application on November 6, 2001 for authorization to convert its system to open access status. That application was withdrawn on January 15, 2002. Shortly thereafter, the City of Orangeburg approached SCPC indicating a desire to gain experience with the functions that

customers must undertake under open access. Our discussions resulted in an Agreement for the Provision of Experimental Resale Firm Service and Transportation Between the City of Orangeburg, South Carolina and South Carolina Pipeline Corporation, dated July 19, 2002. This agreement is for a two-year term and provides for Orangeburg to receive 5,424 dt/day of experimental RFT Service and 3,476 dt/day of standard firm service ("DS-1 Service.") The negotiation of this contract had a collateral benefit to the system in that Orangeburg increased its firm contract demand by 700 dt/day. Service under this agreement began on November 1, 2002 and operations have proceeded smoothly since that date.

Q. PLEASE DISCUSS THE PATRIOTS ENERGY GROUP CONTRACT.

A. Patriots Energy Group ("PEG") is a consortium formed by Chester County Natural Gas Authority, Lancaster County Natural Gas Authority, and York County Natural Gas Authority. PEG was formed to construct a parallel pipeline to bypass SCPC's existing pipeline system and connect the PEG authorities directly to Transco. The cost of that pipeline would have been on the order of $35 million or more. SCPC entered into negotiations with the PEG authorities in an effort to avoid this duplication of facilities and to retain PEG's load on its system. (The three authorities forming PEG had a

combined load of 12.4 million dt on SCPC's system in 2002, which represented 11.6% of SCPC's total throughput.)

Q. WHAT WAS THE RESULT?

A. On December 5, 2002, SCPC entered into an experimental Resale Firm Transportation ("RFT") Service Agreement with PEG. The agreement was for a term of 15 years and provided for PEG authorities to take 35,000 dt/day of experimental Resale Firm Transportation Service and 15,000 dt/day of standard bundled gas service under existing tariffs ("DS-1"). (This firm demand represents an increase of 7,600 dt/day, or 17.9%, over the firm demand of the existing contracts with the three authorities.)

The agreement with PEG prevented the imminent bypass of our system by a customer representing 50,000 dt/day of firm load and the related revenue. Under the new contract, PEG contributes $2.9 million in annual margin revenues that defray SCPC's revenue requirements. Had the bypass gone forward, all these revenues would have been lost. In this regard, it is worth noting that PEG is served chiefly from the high pressure service lines that connect our system with the Transco pipeline at Grover. Accordingly, the capacity needed to support on-going service to PEG is in place and operational and the incremental costs of continuing to provide service to PEG from these facilities are limited.

Q. WHEN DID SERVICE BEGIN UNDER THE CONTRACT?

A. Service under the contract began on April 1, 2003 and is progressing smoothly.

Q. HAVE THERE BEEN OTHER RFT CONTRACTS NEGOTIATED?

A. In addition, SCPC entered into an RFT contract with the Clinton-Newberry Natural Gas Authority effective December 1, 2003. This is a two (2) year Agreement for a minimum firm demand of 4,000 Dt per day, which is an increase from their current obligation to purchase 2,000 Dt per day. Of that 4,000 dt/day, 3,000 is RFT and 1,000 is DS-1. Clinton-Newberry is served by a direct connection to Transco and it relies on SCPC principally to provide additional capacity for the system in areas that are relatively isolated from the Transco laterals that serve it.

Q. WHAT IS YOUR CONCLUSION CONCERNING THE VALUE OF THESE AGREEMENTS?

A. In my opinion, the experimental RFT contracts are functioning as intended and are meeting the needs of the customers that have requested them. We are working closely with our customers to ensure that this experimental service is successfully implemented for the customers who have requested it.

Q. PLEASE DISCUSS THE GROWTH OF DEMAND ON YOUR SYSTEM.

A. Firm demand on our system has continued to grow in spite of the recent challenges to the economy of the United States in general and the Southeast region in particular. As shown on Exhibit ___ (SLD-1), firm contract growth on our system grew at an annual average rate of 3.32% during the period January 1, 1990 to December 31, 2003.

SCPC continually evaluates the sufficiency of the assets required to provide firm service, including upstream interstate transportation capacity. SCPC presently maintains firm interstate transportation ("FT") capacity on our upstream pipelines in the amounts of 108,676 dt/day on the Transco system, and 191,948 dt/day on the Southern Natural system (less capacity releases under the RFT contracts discussed above.) These amounts of FT capacity have been in place since 1997 when SCPC purchased 78,350 dt/day of additional capacity from Transco as a part of Transco's Sunbelt expansion.

A comparison of SCPC's firm contract demand to its available upstream transportation capacity and LNG storage resources (Bushy Park and Salley) is attached as Exhibit ___, (SLD-2). That exhibit indicates that we have firm assets sufficient to provide an 11% operating reserve with a maximum duration of 16 days.

SCPC is sensitive to the fact that LNG storage capacity is severely time-limited. Further, the Company has experienced growth in its firm load in recent years. Acquiring additional long-term interstate capacity requires a significant amount of lead-time prior to the in-service date of the new capacity, which must be factored into our planning. Therefore, we continually evaluate the sufficiency of available capacity not only to serve current demand needs, but to accommodate anticipated growth of firm contract demand on the system.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

SOUTH CAROLINA PIPELINE CORPORATION
Analysis of Downstream Firm Contract Growth

Year	Firm Contracts dts (000)	Yearly Rate of Growth
1990	258,167	
1991	260,895	1.06%
1992	260,250	-0.25%
1993	262,017	0.68%
1994	293,399	11.98%
1995	287,090	-2.15%
1996	299,147	4.20%
1997	305,876	2.25%
1998	305,051	-0.27%
1999	345,879	13.38%
2000	352,422	1.89%
2001	360,637	2.33%
2002 (1)	360,772	0.04%
2003 (1)	369,557	2.44%
Average Yearly Rate of Growth		3.32%

(1) Does not include 50,540 dts for Urquhart which is directly assigned to SCE&G.

SOUTH CAROLINA PIPELINE CORPORATION
Analysis of Upstream Firm Contract Growth

Year	Firm Contracts dts (000)	Yearly Rate of Growth
1990	210,635	
1991	210,635	0.00%
1992	210,635	0.00%
1993	193,686	-8.05%
1994	222,274	14.76%
1995	222,274	0.00%
1996	222,274	0.00%
1997	300,624	35.25%
1998	300,624	0.00%
1999	300,624	0.00%
2000	300,624	0.00%
2001	300,624	0.00%
2002 (2) (3)	300,624	0.00%
2003 (2) (3)	300,624	0.00%
Average Yearly Rate of Growth		3.29%

(2) Does not include 51,050 dts. for Urquhart which is directly assigned to SCE&G.
(3) Does not reflect any interstate capacity released due to RFT contracts.

Exhibit No. ___ (SLD-1)

South Carolina Pipeline Corporation
Available Capacity and LNG Compared to Firm Contract Demand (12-31-2003)

	Reserve Capacity		
	16 Winter Days (dts)	4 Additional Winter Days (dts)	Balance of Winter (dts)
SCPC Firm Interstate Capacity Contracts [5] [6]	300,624	300,624	300,624
LNG - Bushy Park (Output 60 MMCFD)	62,928	-	-
LNG - Salley Park (Output 45 MMCFD)	48,051	48,051	-
Total Flowing Gas Supply (Including LNG)	411,603	348,675	300,624
SCPC Firm Customers (Demand Contracts @ 12/31/03)	369,557	369,557	369,557
Reserve dts	42,046	(20,882)	(68,933)
Reserve %	11.38%	-5.65%	-18.65%

Notes:

1. BTU value for Bushy Park was averaged to be 1.0488
2. BTU value for Salley was averaged to be 1.0678
2. 980 MMCF of Storage for Bushy Park.
3. 900 MMCF of Storage for Salley.
4. Analysis reflects winter period of 151 days.
5. Does not include 51,050 dts of Urquhart which is directly assigned to SCE&G.
6. Does not reflect any interstate capacity released due to RFT contracts.

Exhibit No. ___ (SLD-2)